

Message Text

UNCLASSIFIED

PAGE 01 BOGOTA 08872 051756Z

47

ACTION EB-12

INFO OCT-01 ARA-16 ISO-00 CAB-09 CIAE-00 COME-00 DODE-00

DOT-00 INR-11 NSAE-00 RSC-01 FAA-00 SS-20 NSC-07 L-03

TRSE-00 OMB-01 XMB-07 AID-05 FRB-03 DRC-01 FEA-02

/099 W

----- 015767

R 041550Z OCT 74

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 5137

INFO AMEMBASSY LIMA

UNCLAS BOGOTA 8872

EO 11652: NA

TAGS: ETRN CO

SUBJ: CIVAIR - FOREIGN GOVERNMENT SUBSIDIES TO FOREIGN AIRLINES

REF: A. STATE 79306; B. STATE 162608; C. BOGOTA 8704

1. SUMMARY: NO DIRECT ASSISTANCE GIVEN BY GOC TO COLOMBIAN INTERNATIONAL AIRLINES DURING CY 73. GREATEST INDIRECT ASSISTANCE IS IN THE FORM OF SUBSTANTIALLY LOWER JET FUEL PRICES FOR NATIONAL CARRIERS, GOC GUARANTEE OF LOANS TO NATIONAL CARRIERS, AND PREFERENTIAL AIRMAIL CARRIAGE.

2. GENERAL COLOMBIANIS SERVED BY BRANIFF AND PANAM IN COMPETITION WITH AVIANCA AND AEROCONDOR. ALTHOUGH SOME 14 PERCENT OF AVIANCA IS OWNED BY PANAM, LATTER EXERCISES NO EFFECTIVE MANAGEMENT INFLUENCE; GOC REPUTEDLY HOLDS LARGE NUMBER OF SHARES AND CAN EFFECTIVELY DOMINATE COMPANY POLICY. AVIANCA AND ITS SUBSIDIARIES PROVIDE THE MAJORITY OF COLOMBIA'S DOMESTIC AND INTERNATIONAL AIR SERVICE AS WELL AS OPERATE THE DOMESTIC AND INTERNATIONAL AIRMAIL SYSTEM. AEROCONDOR IS A NON-IATA CARRIER WHICH HAS DOMESTIC ROUTES, SERVES MIAMI AND SANTO DOMINGO AS ITS INTERNATIONAL DESTINATIONS, AND IS WAITING PERMISSION TO SERVE QUITO.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BOGOTA 08872 051756Z

3. STARTING IN NOVEMBER 1973, THE JET FUEL PRICE TO FOREIGN

CARRIERS CHARGED BY THE STATE PETROLEUM COMPANY, ECOPETROL, WAS 9 US CENTS PER GALLON HIGHER THAN THAT CHARGED TO THE NATIONAL CARRIERS. AT A FUEL CONSUMPTION OF APPROX 1300,000 GALLONS PER MONTH FOR COLOMBIAN CARRIERS ON INTERNATIONAL FLIGHTS, THIS AMOUNTED TO AN INDIRECT SUBSIDY OF ABOUT 117,000 US DOLLARS PER MONTH, OR APPROX 234,000 US DOLLARS FOR 1973. IN APRIL 1974, THE DIFFERENTIAL WAS RAISED TO 14 US CENTS PER GALLON, INCREASING THIS SUBSIDY TO ABOUT 182,000 US DOLS PER MONTH.

4. DURING 1973 AVIANCA AND ITS SUBSIDIARIES HELD LOANS FROM FIVE INSTITUTIONS, WHOSE REPAYMENT WAS GUARANTEED BY THE GOC. THE INSTITUTIONS WERE A COMMERCIAL BANK, THREE AIRCRAFT AND PARTS SUPPLIERS, AND THE US EXPORT-IMPORT BANK. DEBT OUTSTANDING AT THE BEGINNING OF 1973 ON THESE LOANS WAS APPROX DOLS 17 MILLION. INTEREST RATES VARIED BETWEEN 5 1/2 AND 7 1/2 PC. PRESUMING THAT THESE GUARANTEES REDUCED INTEREST RATES ON AN OF 3 PERCENT, THE EFFECT OF THESE GUARANTEES WAS TO REDUCE INTEREST PAYMENTS DURING 1973 BY OVER US DOLS 500,000.

5. AVIANCA OPERATES COLOMBIA'S DOMESTIC AND INTERNATIONAL AIRMAIL SYSTEM. IN 1973 AVIANCA CARRIED 3.7 MILLION TON MILES OF AIRMAIL, OF WHICH 3.3 MILLION TON MILES WERE INTERNATIONAL MAIL. ON ALL OF ITS AIRMAIL OPERATIONS AVIANCA EARNED US DOLS 6 MILLION. IF THIS INCOME IS PROPORTIONED AMONG THE DOMESTIC AND INTERNATIONAL MAIL, THE INTERNATIONAL SERVICE EARNED ABOUT DOLS 5.3 MILLION, OR DOLS 1.62 PER TON MILE.

6. THE GOC HAS SEVERAL REGULATIONS AND PRACTICES CONCERNING THE REMISSION OF FOREIGN CURRENCIES ABROAD THAT AFFECT THE PROFITABILITY OF US AIR CARRIERS, AND MAY BE CONSTRUED AS RESTRICTIVE PVACTICES OR INDIRECT SUBSIDIES IN FAVOR OF DOMESTIC CARRIERS:

(A) US CARRIERS CANNOT REMIT INCOME FROM PREPAID TICKET ADVICES, PTA'S. WHEN A TICKET IS PURCHASED IN COLOMBIA BUT DELIVERED ABROAD, THE US CARRIER MAY NOT REMIT THIS MONEY TO THE US. PTA'S ACCOUNT FOR 4-5 PERCENT OF US CARRIER SALES IN COLOMBIA.

(B) US CARRIERS CANNOT REMIT MONEY NOT DIRECTLY RELATED TO SALE OF TICKETS. FOR EXAMPLE, THEY CANNOT REMIT INTEREST AND SERVICE CHARGES FROM FLY-NOW-PAY-LATER PLANS, AND THEY MAY NOT REMIT UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BOGOTA 08872 051756Z

MONIES FROM THE SALE OF THE GROUND PORTION OF INCLUSIVE TOURS NOR FOR PAYMENT IN COLOMBIA FOR TRAVEL TERMINATING IN COLOMBIA. NATIONAL CARRIERS DO NOT HAVE TO SEEK SUCH REMITTANCES.

(C) FOREIGN CARRIERS MUST MAKE MONTHLY STATEMENTS OF INCOME AND EXPENSES, AND DEPOSIT THE MONEY TO BE REMITTED ABROAD IN THE BANK OF THE REPUBLIC. PAPERWORK AND PROCESSING DELAYS MEAN THAT IN EFFECT FOREIGN CARRIERS MUST DEPOSIT THEIR LOCAL CURRENCY REMIT-

TANCES IN AN INTEREST-FREE ACCOUNT IN THE BANK FOR ONE MONTH.
NATIONAL CARRIERS DO NOT BEAR THIS COST.

7. GOVERNMENT SERVICES FREE OR BELOW COST: (A) ALL CARRIERS ARE CHARGED THE SAME FEES FOR LANDING, CUSTOMS PROCESSING, AIR TRAFFIC CONTROL, ETC; HOWEVER, AEROCONDOR IS SEVERAL MONTHS IN ARREARS IN ITS PAYMENTS. ARREARAGES ARE NOT PERMITTED FOR FOREIGN CARRIERS. (B) AVIANCA APPEARS TO PAY A LOWER PER UNIT RENT ON FACILITIES LEADED FROM GOC; HOWEVER, SINCE AVIANCA RENTS FAR MORE SPACE FROM CIVAIR AUTHORITIES, THIS PRICE DIFFERENTIAL IS NOT CONSIDERED ANTICOMPETITIVE OR UNJUST BY US CARRIERS.

8. POOLING: AVIANCA OPERATES REVENUE SHARING POOLS WITH NON-US CARRIERS ON ALL INTERNATIONAL ROUTES. THESE POOLING ARRANGEMENTS ARE NOT PERMITTED US CARRIERS BY USG, AND THEY PUT US CARRIERS AT A COMPETITIVE DISADVANTAGE.

9. ADVERTISING BY NATIONAL TOURIST CORPORATION EMPHASIZES ROLE OF AVIANCA AS NATIONAL CARRIER, AND PROMOTES TRAVEL LIKELY TO BE TAKEN ON THE NATIONAL CARRIER.

10. SUBSIDIES MENTIONED SUBPARAS E AND F OF REFTTEL B NOT APPLICABLE IN COLOMBIA.

11. BY GOC DECREE COLOMBIAN STUDENTS STUDYING ABROAD RECEIVE A 50 PERCENT DISCOUNT ON AIR TICKETS. THE TICKETS ARE AUTOMATICALLY WRITTEN UP BY ICETEX, THE GOC PARASTATAL ORGANIZATION SUPPORTING FOREIGN STUDY, FOR TRAVEL VIA AVIANCA.

12. FOR THE TAXABLE YEARS 1974-1979, COLOMBIAN AIR CARRIERS CAN COUNT AS TAX CREDITS THEIR EXPENSES FOR RENOVATION, ACQUISITION AND MAINTENANCE OF AIRCRAFT, UP TO 100 PERCENT OF THEIR CORPORATE TAX. THEY CAN ALSO COUNT AS TAX CREDITS THEIR CONTRIBUTIONS TO

UNCLASSIFIED

PAGE 04 BOGOTA 08872 051756Z

LATIN AMERICAN INTERNATIONAL AIR CARRIERS; THE MAXIMUM CREDIT BEING 50 PERCENT OF THE TAX DUE. THIS CHANGE IN CORPORATE TAXATION IS CONTAINED IN ARTICLE 99 OF RECENTLY DECREED INCOME TAX LAW, (SEE REF C). IF THIS LAW HAD BEEN IN EFFECT FOR 1973, AVIANCA WOULD HAVE AVOIDED US DOLS 1.5 MILLION IN CORPORATE TAXES.
VAKY

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRANSPORTATION SUBSIDIES, AIRLINES, SUBSIDIARIES, JET FUEL, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 04 OCT 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BOGOTA08872
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740283-0095
From: BOGOTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741073/aaaackqi.tel
Line Count: 160
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: A. STATE 79306; B. STATE 162608; C., BOGOTA 8704
Review Action: RELEASED, APPROVED
Review Authority: CollinP0
Review Comment: n/a
Review Content Flags:
Review Date: 05 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 MAR 2002 by chappeld>; APPROVED <12 FEB 2003 by CollinP0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CIVAIR - FOREIGN GOVERNMENT SUBSIDIES TO FOREIGN AIRLINES
TAGS: ETRN, EAIR, CO
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005